



## Background Briefing

# REVENUE SHARING

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Fiscal information in this briefing is based on January 2011 Consensus Revenue Estimates.

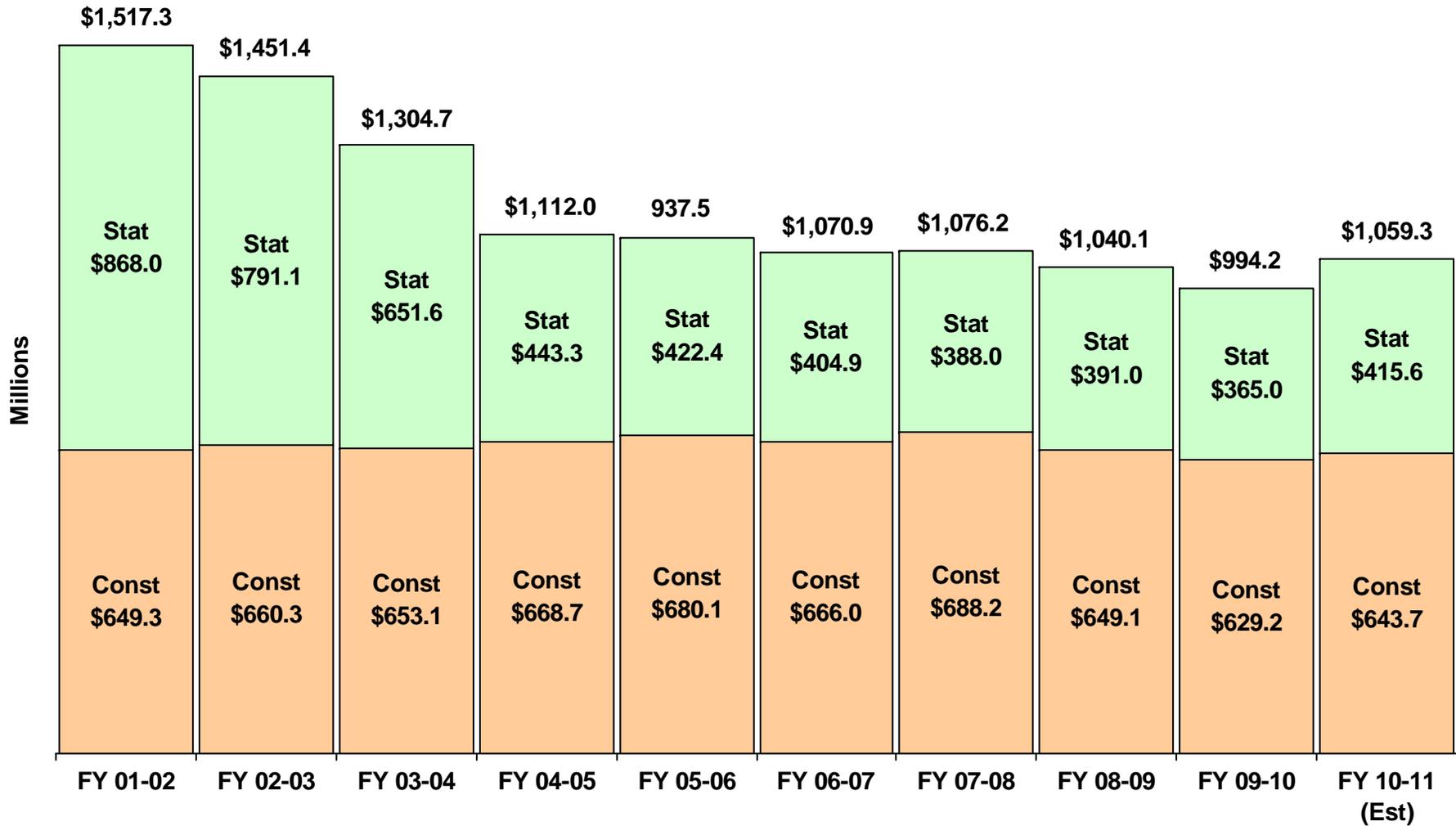
# Introduction to Revenue Sharing

- Revenue sharing payments are state funds appropriated to more than 1,800 local units of government to spend as unrestricted revenue
- Constitution requires 48.97% of state spending be paid to local units
- Revenue sharing payments represent about 10% of state spending to local units and almost 100% of unrestricted transfers
- Constitutional share fixed at 15.0% of sales tax revenue at 4.0% rate
- Statutory share defined as 21.3% of sales tax revenue at 4.0% rate

# Appropriating Revenue Sharing Funds

- Revenue sharing appropriations appear in the General Government budget as two separate line items (Constitutional and statutory)
- Actual statutory revenue sharing amounts are often reduced from fully-funded level (21.3%) due to statutory share being subject to an appropriations bill which may not provide adequate monies for full funding
- For FY 2010-11, the General Government appropriations bill contains boilerplate which specifies how the statutory appropriation is to be distributed

# Constitutional and Statutory Revenue Sharing Payments



# Distributing Revenue Sharing Payments

- **Constitutional share**
  - Distributed to cities, villages, and townships (CVTs) only
  - Counties do not receive Constitutional payments
  - Distributed on a per capita basis
  
- **Statutory share**
  - Distributed to counties (until FY 2004-05) and CVTs
  - Through FY 2006-07, distributions determined by the State Revenue Sharing Act of 1971
  - Statutory formulas enacted under 1998 PA 532 sunsetted on September 30, 2007
  - Statutory changes in FY 2002-03 through FY 2006-07 superseded formulas outlined in 1998 PA 532

# Recent Changes to Revenue Sharing

- **2004 PA 355**
  - For FY 2004-05, total payments to all cities, villages, and townships (CVTs) will be the same as in FY 2003-04
  - Each CVT will receive its full constitutional payment
  - Each CVT will have its statutory payment reduced by an amount necessary to make its total FY 2004-05 payment equal to its FY 2003-04 payment
  - Because some CVTs have no statutory payments due to prior reductions, these units will receive small increases since their statutory payments cannot be reduced to offset growth in their constitutional payments

# Recent Changes to Revenue Sharing

- **2004 PA 356**
  - **Beginning with FY 2004-05, state revenue sharing payments to counties were suspended**
  - **For 2004, 2005, and 2006, each county will use a portion of its winter operating tax levy to establish a required reserve fund from which it will make payments to itself in lieu of revenue sharing payments**
  - **Each county's payment will be increased annually by the rate of inflation**
  - **When a county's required reserve fund is exhausted and is inadequate to fund its payment, that county will again be eligible for state revenue sharing payments**

# Recent Changes to Revenue Sharing

- **2005 PA 196**
  - **For FY 2005-06, total payments to all cities, villages, and townships (CVTs) will be the same as in FY 2004-05**
  - **Each CVT will receive its full constitutional payment**
  - **Each CVT will have its statutory payment reduced by an amount necessary to make its total FY 2005-06 payment equal to its FY 2004-05 payment**
  - **Because some CVTs have no statutory payments due to prior reductions, these units could receive net increases since their statutory payments cannot be reduced to offset growth in their Constitutional payments**

# Recent Changes to Revenue Sharing

- **2006 PA 437**
  - **For FY 2006-07, total payments to all cities, villages, and townships (CVTs) will be the same as in FY 2005-06**
  - **Each CVT will receive its full constitutional payment**
  - **Each CVT will have its statutory payment reduced by an amount necessary to make its total FY 2006-07 payment equal to its FY 2005-06 payment**
  - **Because some CVTs have no statutory payments due to prior reductions, these units could receive net increases since their statutory payments cannot be reduced to offset growth in their Constitutional payments**

# Recent Changes to Revenue Sharing

- **2007 PA 127**
  - **For FY 2007-08, total payments to all cities, villages, and townships (CVTs) will be the same as in FY 2006-07, as specified in boilerplate in the General Government appropriations bill**
  - **Each CVT will receive its full constitutional payment**
  - **Each CVT will have its statutory payment adjusted as necessary to make its total FY 2007-08 payment equal to its FY 2006-07 payment**
  - **Because some CVTs have no statutory payments due to prior reductions, these units could receive net increases since their statutory payments cannot be reduced to offset growth in their Constitutional payments**
  - **County revenue sharing payments resume to Tuscola county which exhausted its required reserve fund**

# Recent Changes to Revenue Sharing

- **2008 PA 261**
  - **For FY 2008-09, total payments to all cities, villages, and townships (CVTs) will be the same as in FY 2007-08, as specified in boilerplate in the General Government appropriations bill**
  - **Each CVT will receive its full constitutional payment**
  - **Each CVT will have its statutory payment adjusted as necessary to make its total FY 2008-09 payment equal to its FY 2007-08 payment**
  - **Local units will also receive an additional statutory amount equal to 2% of the statutory payment it received in FY 2006-07. If a local unit did not receive a statutory payment in FY 2006-07, it would not receive a supplemental payment in FY 2008-09**
  - **County revenue sharing payments resume to the six counties that have exhausted their required reserve funds**

# Recent Changes to Revenue Sharing

- **Executive Order 2009-22**
  - **Reduced statutory revenue sharing for FY 2008-09. Statutory revenue sharing payments to all cities, villages, and townships (CVTs) will be the same as in FY 2007-08**
  - **Eliminated the “hold-harmless” boilerplate language which would have adjusted each CVT’s statutory payment as necessary to make its total FY 2008-09 payment equal to its FY 2007-08 payment**
  - **Eliminated the boilerplate language which would have provided some local units with an additional statutory amount equal to 2% of the statutory payment it received in FY 2006-07.**

# Recent Changes to Revenue Sharing

- **2009 PA 129**
  - **For FY 2009-10, total payments to all cities, villages, and townships (CVTs) will be reduced by an average of 11.02% from the amount received in FY 2008-09, as specified in boilerplate in the General Government appropriations bill**
  - **Each CVT will receive its full constitutional payment**
  - **Each CVT eligible to receive a statutory payment will have its statutory payment adjusted as necessary to make its total FY 2009-10 payment 11.02% smaller than its FY 2008-09 payment**
  - **The 20 counties that will have exhausted their required reserve funds will receive pro-rated payments totaling \$55.3 million as opposed to the \$64.5 million full funding amount**

# Recent Changes to Revenue Sharing

- **2010 PA 191**
  - For FY 2010-11, total payments to all cities, villages, and townships (CVTs) will be equal to the amount received in FY 2009-10, as specified in boilerplate in the General Government appropriations bill
  - Each CVT will receive its full constitutional payment
  - Each CVT eligible to receive a statutory payment will have its statutory payment adjusted as necessary to make its total FY 2010-11 payment equal to its FY 2009-10 payment
  - Because some CVTs have no statutory payments due to prior reductions, these units could receive net increases since their statutory payments cannot be reduced to offset growth in their Constitutional payments.
  - The 38 counties that will have exhausted their required reserve funds will receive the full funding level of payments totaling \$114.7 million.

# Constitutional/Statutory Revenue Sharing to Cities, Villages, and Townships

*Millions of Dollars*

	<u>Final FY 10</u>	<u>Estimate FY 11</u>	<u>Change FY 10 to FY 11</u>
<b>Constitutional Share</b>	<b>\$629.2</b>	<b>\$643.7</b>	<b>\$14.6</b>
<b>Detroit</b>	<b>60.3</b>	<b>61.7</b>	<b>1.4</b>
<b>Other CVTs</b>	<b>568.9</b>	<b>582.1</b>	<b>13.2</b>
<b>Statutory Share</b>	<b>\$309.7</b>	<b>\$300.9</b>	<b>(\$8.8)</b>
<b>Detroit</b>	<b>178.9</b>	<b>177.5</b>	<b>(1.4)</b>
<b>Other CVTs</b>	<b>130.8</b>	<b>123.4</b>	<b>(7.4)</b>
<b>Totals</b>	<b>\$938.9</b>	<b>\$944.7</b>	<b>\$5.7</b>
<b>Detroit</b>	<b>239.2</b>	<b>239.2</b>	<b>0.0</b>
<b>Other CVTs</b>	<b>699.7</b>	<b>705.4</b>	<b>5.7</b>
<b>Cities</b>	<b>386.2</b>	<b>386.3</b>	<b>0.1</b>
<b>Villages</b>	<b>22.2</b>	<b>22.3</b>	<b>0.1</b>
<b>Townships</b>	<b>291.3</b>	<b>296.9</b>	<b>5.6</b>

**For more information about  
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